

**MEMO# 2767**

May 17, 1991

## **RHODE ISLAND PROCEDURES RELATING TO PASS-THROUGH OF FEDERAL OBLIGATION INTEREST**

May 17, 1991 TO: TAX MEMBERS NO. 14-91 MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 9-91 RE: RHODE ISLAND PROCEDURES RELATING TO PASS-THROUGH OF FEDERAL OBLIGATION INTEREST \_\_\_\_\_ Rhode Island has previously responded to Institute surveys that it does not require funds to file a report with the state as a condition for passing through the exempt character of federal obligation interest. (See Institute Memorandum "1990 Surveys of State Income Taxation" to Members - One Per Complex No. 51-90, Closed-End Fund Members No. 46-90, Tax Members No. 48-90, Unit Investment Trust Members No. 73-90 and Accounting/Treasurers Members No. 23-90, dated November 21, 1990.) However, in the attached materials the state has informed the Institute of a registration program for funds which pay dividends derived in whole or in part from interest earned on federal obligations. If a fund has registered, the state will inform inquiring Rhode Island taxpayers whether dividends paid by the fund are exempt from Rhode Island income tax. If the fund has not registered, the state will be unable to respond to the taxpayer. The response letter from the state spells out the procedures which should be followed in registering a fund. Also attached is the form response from the state. The letter points out that the fund should provide in its annual statement to shareholders a breakdown of the fund's sources of income sufficiently detailed so that, if the state requests verification of the tax-exempt status of the fund's dividends, the shareholder can provide a copy of the statement as proof. Finally, a list is enclosed of certain obligations which are or are not considered by Rhode Island to be federal obligations. We will keep you informed of developments. David J. Mangefrida, Jr. Assistant Counsel - Tax Attachments